





CONCEPT: CALCULATING GDP

- **Gross Domestic Product (GDP)** is the value of the final goods and services produced by a country during a year
 - GDP as a statistic is used to measure growth in an economy and the “well-being” of the citizenry
 - > Economists tend to rationalize that “higher output means happier citizens!”
 - GDP can be calculated by adding up all the **expenditures** during the year and has _____ main components
 - > Note that GDP can also be calculated by adding up all the **income** during the year (less common)
 -  □ **Consumption** – spending by _____ on goods and services
 - > Excludes the household purchases of _____
 -  □ **Investment** – spending on capital equipment, inventory, and structures
 - > Think of this generally as businesses spending on their long-term growth
 - > Includes the household purchases of _____
 -  □ **Government Purchases** – spending on goods and services by local, state, and federal _____
 - > Paying teacher salaries, building highways, buying military equipment
 - > Does not include *transfer payments*, such as welfare (does not result in production)
 -  □ **Net Exports** = Exports _____ imports
 - > **Exports** – goods produced _____ but sold _____
 - > **Imports** – goods produced _____ but sold _____

$$GDP = C + I + G + NX$$

- **Nominal GDP** uses _____ prices when calculating the value of goods
- **Real GDP** uses _____ prices when calculating the value of goods
- A few extra technicalities worth mentioning regarding GDP:
 - “Final” goods and services are purchased by the final user → included in GDP
 - > *Intermediate goods* are purchased to be used in another product (i.e. paper to create a greeting card)
 - Second-hand sales are not included in GDP
 - > The purchase of a TV from Walmart is included in GDP, but when you sell it used on Craigslist it is not
 - Financial transactions are not included in GDP (i.e. transfer payments and stock market transactions)